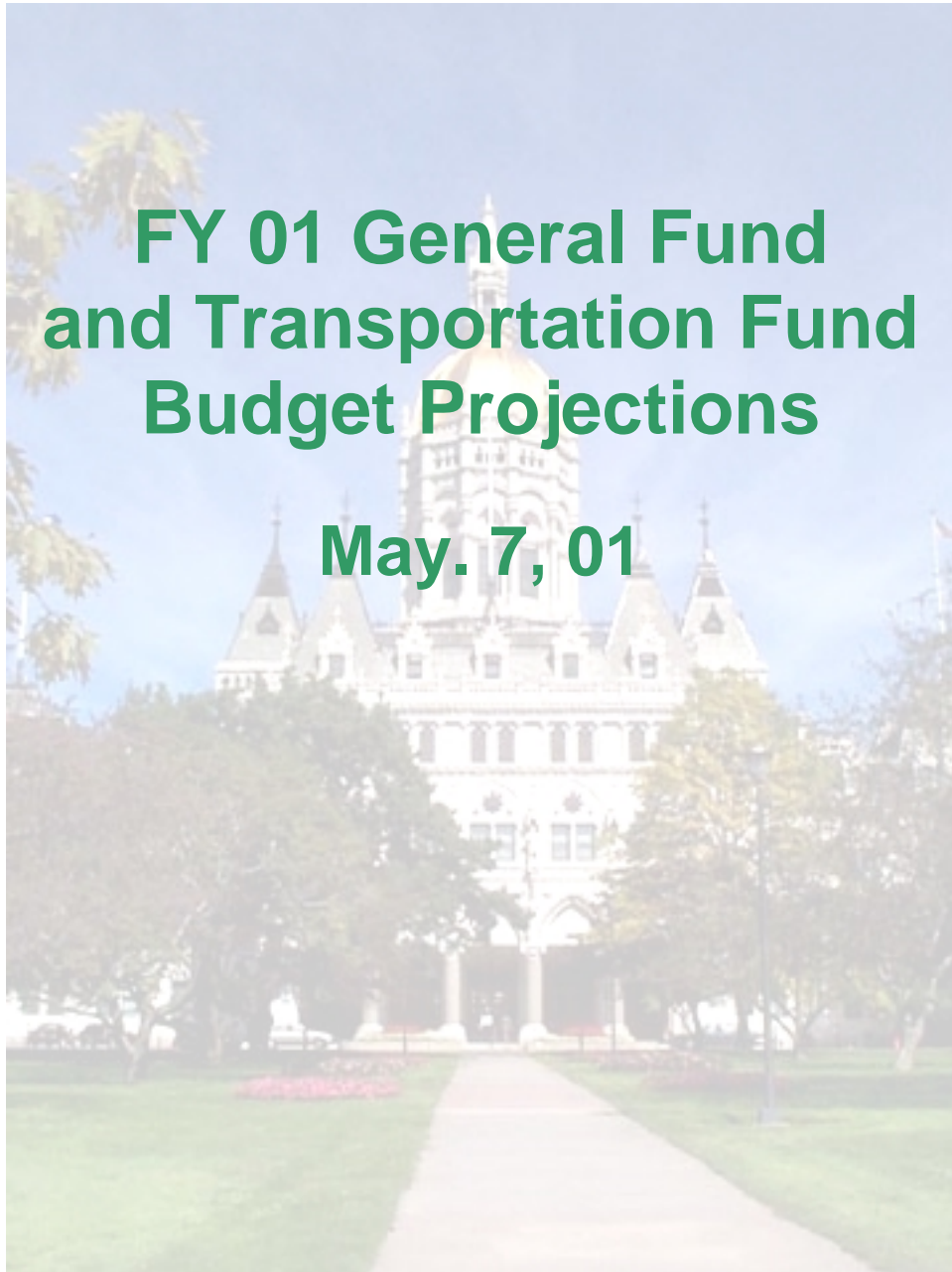


# Connecticut General Assembly

## OFFICE OF FISCAL ANALYSIS

### **FY 01 General Fund and Transportation Fund Budget Projections**

**May. 7, 01**



## Report Assumptions

- Expenditures are based on the budget reported out of the Appropriations Committee.
- Revenue estimates rely on historical patterns with adjustments for the personal income tax receipts that assume a deterioration in realized capital gains. Revenue figures reflect losses of \$115 million in FY 02 and \$121 million in FY 03 from the repeal of the sales and use tax on patient care services as well as tax credit exchanges of \$14.5 million in each of FY 02 and FY 03.
- However, unknowns include energy prices, GNP growth rate, stock market activity and corporate profits.

## Report Highlights

- **FY 01 General Fund surplus** has grown by \$699.5 million from the \$.5 million originally budgeted to **\$700 million**. This projection represents an increase of \$92 million over our February 5, 2001 report. **See pages 3 –7** for details.
- **Comparing FY 02 and FY 03 General Fund revenues and appropriations indicates a surplus of \$2.2 million in FY 02 and a revenue gap of (\$82.1) million in FY 03.** Please **see page 7** for details.
- **FY 01 Transportation Fund operating surplus** has decreased by \$17.6 million from the \$39.6 million originally budgeted to **\$22 million**. This projection represents a decrease of \$21.5 million from our February 5, 2001 report. **See pages 9–12** for details.
- **FY 04 through FY 06 projections indicate that the Transportation Fund will begin experiencing annual operating deficits beginning in FY 04, which will lower the cumulative surplus of the prior years to \$2.5 million in FY 06.** **See page 12** for details.

# FY 01 General Fund and Transportation Fund Budget Projections

(as of May 4, 2001)

## I. General Fund

Our projections for the fiscal year ending June 30, 2001 indicate the **potential net surplus has grown** by \$699.5 million from the \$.5 million originally budgeted to **\$700 million** (which represents 6.2% of the original budget). The \$699.5 million increase is based on revised **estimated revenues** that are **\$820.7 million above the budget act estimates** and **estimated expenditures** that are **\$121.2 million higher than original net appropriations**. While the projected General Fund surplus is \$700 million, **there is a potential for reductions to this estimate to the degree that any additional account balances, that would otherwise lapse, are authorized to be carried forward into FY 02.**

This projection represents an increase in the surplus of \$92 million over our February 5, 2001 report. This amount is primarily attributable to a \$96.5 increase in FY 01 revenues.

### Revenues

Based on collections through April, total General Fund revenue is up \$96.5 million compared to our February 5, 2001 report. The major change is in the Personal Income Tax estimate, which is up \$102 million (\$70 million increase in payments and \$32 million decrease in refunds). The Corporation Business Tax estimate is down by \$30 million (\$45 million decrease in payments offset by a \$15 million decrease in refunds). The Inheritance and Estate Tax estimate is up by \$12 million and all other minor changes net to an increase of \$12.5 million.

The schedule on **page 6** shows the difference between the original budget act estimates and OFA's current estimates.

The revision to the personal income tax estimate is based on better than expected collections in April versus April and May of last year (we have included May 2000 collections because of the delay in the Department of Revenue Services receiving mail from the Post Office). In April 2001, payments from final returns exceeded our February revised estimates by \$70 million. Our February estimate of payments from final personal income tax returns assumed growth of 13%. The actual growth turned out to be 26%.

Based on year-to date collections, withholding taxes and estimated payments are meeting our revised February targets. Therefore, no adjustments have been made to these income tax components.

The slowing national economy appears to have affected corporate profits as corporation business tax payments in March and April were below our estimates for that period. Our

revised estimates reflect that collections for FY 01 will be lower than our February estimate (\$585 million) by \$45 million.

**Expenditures**

The \$4.5 million increase in expenditures since our February 5, 2001 report is largely attributable to the combined effect of net deficiencies increasing by \$14.8 million and net lapses increasing by \$10.3 million. The increase in net deficiencies is largely due to the Department of Social Services (\$13.7 million) and the increase in net lapses is spread over a number of agencies and accounts.

Also, projected payments for two non-budgeted accounts are factored in: Adjudicated Claims of \$9 million (a decrease of \$1 million from our previous report) and Refunds of Escheated Property at \$8 million (an increase of \$1 million over our previous report).

**FY 01 General Fund Summary  
as of May 4, 2001  
(in millions)**

	<b>FY 01 Budget Plan</b>	<b>Increases (Decreases)</b>	<b>Revised Estimates</b>
<b>Revenues</b>			
Taxes	\$ 8,104.9	\$ 687.3	\$ 8,792.2
Other Revenue	997.7	0.7	998.4
Other Sources	2,178.7	132.7	2,311.4
<b>Total Revenue</b>	<b>\$ 11,281.3</b>	<b>\$ 820.7</b>	<b>\$ 12,102.0</b>
<b>Appropriations</b>			
Original Appropriations - Gross	\$ 11,400.8	\$ -	\$ 11,400.8
<b>Less:</b>			
Estimated Budgeted Lapses	(120.0) [1]	(9.6)	(129.6)
<b>Plus:</b>			
Estimated Deficiency Appropriations	-	113.8 [3]	113.8
Estimated Adjudicated Claims	-	9.0	9.0
Estimated Refunds of Escheated Property	-	8.0	8.0
<b>Total Estimated Expenditures</b>	<b>\$ 11,280.8</b>	<b>\$ 121.2</b>	<b>\$ 11,402.0</b>
<b>Projected Surplus from Operations for FY 01</b>	<b>\$ 0.5</b>	<b>\$ 699.5</b>	<b>\$ 700.0</b>
<b>Appropriated and Earmarked Surplus per sHB 6668 (the Approps. Act) [5]</b>			<b>(571.1)</b>
<b>Transfer to Fully Fund the Budget Reserve Fund [6]</b>			<b>(35.9)</b>
<b>Remaining Balance (Unappropriated Surplus) to Debt Retirement [7]</b>			<b>\$ 93.0</b>

[1] Includes \$89.4 million in budgeted lapses, \$24.5 million in general PS and OE reductions and \$6.1 million from the statewide hiring freeze.

[2] Includes the following lapse adjustments:

Original Budgeted Lapse	\$120.0
Plus Original Allotment Reductions	48.5
Plus Additional Growth in Lapses	39.3
Minus Transfers Required to Cover Intra-Agency Deficiencies	-78.2
<b>Total</b>	<b>\$129.6</b>

[3] HB 7050 (An Act Making Deficiency Appropriations for Fiscal Year Ending June 30, 2001) appropriates \$28.3 million for several General Fund deficiencies.

[4] OFA's projected surplus as of 2/5/01 was \$608 million.

[5] Requires a declaration by the governor and a three-fifths majority in each house in order to exceed the spending cap.

[6] This \$35.9 million addition would increase the amount in the Budget Reserve Fund (BRF) from \$564 million to nearly \$600 million. This would keep the BRF at the statutory limit of 5% of the Appropriations Committee's net General Fund appropriations for FY 02 based on sHB 6668 (the budget bill) as favorably reported on April 17, 2001.

[7] The remaining balance (unappropriated surplus) will be used for debt retirement in accordance with the constitutional amendment adopted November 25, 1992, unless a declaration is issued by the governor recommending appropriations by the General Assembly, and approved by at least a three-fifths majority in each house.

**FY 01 General Fund Revenue  
as of May 4, 2001  
(in thousands)**

	Budget Plan		OFA	OFA Estimate	
	Growth	FY 01	Over/(Under)	Growth	FY 01
	Rate % [1]	Estimate	Budget Plan	Rate % [1]	Estimate
<b>Taxes</b>					
Personal Income	5.1	\$4,218,000	\$532,000	12.9	\$4,750,000
Sales and Use	5.7	3,116,700	103,300	7.6	3,220,000
Corporations	4.2	512,900	27,100	4.8	540,000
Inheritance and Estate	3.9	241,400	(11,400)	3.4	230,000
Public Service Corporations	2.0	173,000	(3,000)	2.7	170,000
Insurance Companies	5.1	198,400	(6,400)	0.9	192,000
Cigarettes	(2.5)	116,200	4,800	(1.0)	121,000
Oil Companies	(8.0)	39,200	28,800	14.0	68,000
Real Estate Conveyance	2.0	112,200	0	(2.1)	112,200
Alcoholic Beverages	0.0	40,000	1,000	0.4	41,000
Miscellaneous	4.0	42,700	(2,700)	1.8	40,000
Admissions, Dues and Cabaret	2.5	24,000	0	(0.1)	24,000
<b>Total Taxes</b>		<b>\$8,834,700</b>	<b>\$673,500</b>		<b>\$9,508,200</b>
Refunds of Taxes		(\$729,800)	\$13,800		(\$716,000)
<b>Net General Fund Taxes</b>		<b>\$8,104,900</b>	<b>\$687,300</b>		<b>\$8,792,200</b>
<b>Other Revenue</b>					
Transfer Special Revenue		\$265,200	(\$5,200)		\$260,000
Indian Gaming Payments		336,000	0		336,000
Licenses, Permits and Fees		121,800	6,200		128,000
Sales of Commodities and Services		32,000	(3,500)		28,500
Rentals, Fines and Escheats		41,100	6,200		47,300
Investment Income		68,000	0		68,000
Miscellaneous		133,600	(3,000)		130,600
<b>Total Other Revenue</b>		<b>\$997,700</b>	<b>\$700</b>		<b>\$998,400</b>
<b>Other Sources</b>					
Federal Grants		\$2,122,300	\$135,700		\$2,258,000
Transfer from Tob. Settlement Fund		138,800	0		138,800
Transfer to Other Funds		(82,400)	(3,000)		(85,400)
<b>Total Other Sources</b>		<b>\$2,178,700</b>	<b>\$132,700</b>		<b>\$2,311,400</b>
<b>Total Revenue</b>		<b>\$11,281,300</b>	<b>\$820,700</b>		<b>\$12,102,000</b>

[1] Tax growth rates reflect adjustments for rate and base changes.

**General Fund Revenue and Appropriations Comparison for FY 02 and FY 03  
Based on Revised Revenue Estimates  
(as of May 4, 2001)**

The updated revenue estimates for the next biennium reflect the effect of the updated FY 01 estimates and the effect of the Appropriations Committee actions in the budget that affect FY 02 and FY 03 revenues. The revenue estimates only reflect the effect on revenues of the Finance Committee actions of two bills; (1) An Act Repealing the Sales and Use Tax on Patient Care Services (sSB 1153) with associated revenue losses of \$115 million in FY 02 and \$121 million in FY 03, and (2) An Act Concerning Refunds of Payments, Tax Credit Exchanges, and Certain Business Tax Credits (sSB 1145) with associated increases in refunds (revenue losses) of \$14.5 million in each of FY 02 and FY 03.

The effect of the revised estimates for FY 01 on FY 02 and FY 03 revenues is to recognize the effect that collections in April had on the base while keeping the underlying economic assumptions and projected growth rates for the next two years. This means that the projection for the personal income tax continues to include a drop in tax payments from capital gains realizations of 25% for the 2001 income year. Although the 1st estimates do not reflect this, it is assumed that taxpayers did not take into account what happened to stock prices in the first quarter, but paid on the basis of what their actual 2000 income year liability was (Connecticut, like the Federal Government, allows taxpayers to base their estimate on what they expect to owe in the current income year or based on what they actually owed in the prior year). Therefore the projections for FY 02 assume that the effect of the drop in stock prices will primarily be reflected in third, fourth, and final payments due during the FY 02 fiscal year.

The drop in corporation business tax payments reflects both lower profitability in the 2000 income year and a continuation of this trend throughout the 2001 income year.

<b>General Fund:</b>	<b><u>FY 02</u></b>	<b><u>FY 03</u></b>
Revenues	12,001.5	12,514.1
Appropriations Committee Operating Budget (sHB 6668)	11,999.3	12,596.2
Surplus / (Gap)	2.2	(82.1)

**General Fund Revenue Estimates**  
**As of May 4, 2001**  
**Including Adjustments Based on Appropriations Budget**  
**(in thousands)**

	<b>Growth Rate % [1]</b>	<b>OFA FY 02 Estimate</b>	<b>Growth Rate % [1]</b>	<b>OFA FY 03 Estimate</b>
<b>Taxes</b>				
Personal Income	2.5	\$4,867,000	6.2	\$5,162,000
Sales and Use	5.5	3,241,900	5.0	3,365,600
Corporations	3.0	501,200	4.0	531,500
Inheritance and Estate	(2.4)	210,000	3.0	202,000
Public Service Corporations	1.0	171,700	0.0	171,700
Insurance Companies	3.2	198,100	3.2	204,400
Cigarettes	(2.5)	118,000	(2.5)	115,100
Oil Companies	0.0	60,000	0.0	60,000
Real Estate Conveyance	(2.0)	110,000	1.0	111,100
Alcoholic Beverages	0.0	41,000	0.0	41,000
Miscellaneous	0.0	36,100	0.0	35,300
Admissions, Dues and Cabaret	2.0	23,300	2.0	23,800
<b>Total Taxes</b>		<b>\$9,578,300</b>		<b>\$10,023,500</b>
Refunds of Taxes		(\$751,000)		(\$817,000)
R & D Credit Exchange		(14,000)		(14,000)
<b>Net General Fund Taxes</b>		<b>\$8,813,300</b>		<b>\$9,192,500</b>
<b>Other Revenue</b>				
Transfer Special Revenue		\$262,600		\$264,400
Indian Gaming Payments		360,000		370,000
Licenses, Permits and Fees		127,000		128,000
Sales of Commodities and Services		29,500		30,000
Rentals, Fines and Escheats		48,000		49,000
Investment Income		62,700		61,200
Miscellaneous		127,900		136,200
<b>Total Other Revenue</b>		<b>\$1,017,700</b>		<b>\$1,038,800</b>
Refunds of Payments		(\$500)		(\$500)
<b>Net Other Revenue</b>		<b>\$1,017,200</b>		<b>\$1,038,300</b>
<b>Other Sources</b>				
Federal Grants		\$2,169,200		\$2,280,200
Transfer from Tob. Settlement Fund		121,800		123,100
Transfer to Other Funds		(120,000)		(120,000)
<b>Total Other Sources</b>		<b>\$2,171,000</b>		<b>\$2,283,300</b>
<b>Total Revenue</b>		<b>\$12,001,500</b>		<b>\$12,514,100</b>

[1] Tax growth rates reflect adjustments for rate and base changes.



## II. Transportation Fund

Our projections for the fiscal year ending June 30, 2001 indicate the **potential surplus from operations, based on increased expenditures, has decreased by \$17.6 million** from the \$39.6 million originally budgeted **to \$22 million** (which represents 2.7% of the original budget). Since PA 00-170 repealed the provisions under 13b-68(b) of the general statutes which required that amounts in excess of \$20 million be used for debt retirement, the cumulative surplus as of June 30, 2001 is projected to be \$112.2 million. The severity of the winter season, and rising fuel costs have affected the outcome.

### Revenues

Transportation Fund revenue is estimated at \$856 million, which is an increase of \$1.9 million over budget act estimates. The increases in Motor Vehicle Receipts (\$2.5 million), Licenses, Permits and Fees (\$2 million) and in Investment Income (\$3.5 million) more than offset the decrease in motor fuels tax of \$7.5 million. Please refer to the FY 01 Transportation Fund Revenue Schedule on **page 11**.

### Expenditures

FY 01 estimated expenditures for the Transportation Fund are projected to be \$834 million which is \$19.5 million higher than the original appropriation. Only \$4 million from the originally estimated lapse savings of \$20 million is expected to be achieved (Please refer to the FY 01 Transportation Fund Summary on **page 10**).

Currently, a projected debt service lapse of \$3.3 million is anticipated. The lapse is attributed to the following two factors:

- the difference between the actual interest rate of 5.04% for bonds issued in July, 2000 and the budgeted interest rate of 6.25%, \$1.8 million .
- the use of funds remaining in the account designated for Transportation Fund debt reduction to pay FY 01 debt service, \$1.5 million.

Based on the Appropriations budget, long-term projections indicate that the Transportation Fund will begin experiencing annual operating deficits beginning in FY 04, which will lower the cumulative surplus of the prior years to \$2.5 million in FY 06. (Please refer to **page 12** for Transportation Fund projections from FY 02 through FY 06).

**FY 01 Transportation Fund Summary**  
**As of May 4, 2001**  
**(in millions)**

	<b>FY 01 Budget <u>Plan</u></b>	<b>Increases <u>(Decreases)</u></b>	<b>Revised <u>Estimates</u></b>
<b>Revenues</b>			
Taxes	\$ 513.2	\$ (6.1)	\$ 507.1
Other Revenue	340.9	8.0	348.9
Total Estimated Revenues	\$ 854.1	\$ 1.9	\$ 856.0
<b>Appropriations</b>			
Original Appropriations - Gross	\$ 834.5	\$ 0.0	\$ 834.5
Plus: Estimated Deficiency Appropriations [1]	0.0	3.5	3.5
Less: Estimated Budgeted Lapses	(20.0)	16.0	(4.0)
Total Estimated Expenditures	\$ 814.5	\$ 19.5	\$ 834.0
<b>Estimated Surplus from Operations for FY 01</b>	<b>\$ 39.6</b>	<b>\$ (17.6)</b>	<b>\$ 22.0</b>
<b>Plus: Cumulative Surplus as of June 30, 2000 [2]</b>	<b>\$ 90.2</b>	<b>\$ 0.0</b>	<b>\$ 90.2</b>
<b>Projected Fund Balance as of June 30, 2001 [3]</b>	<b>\$ 129.8</b>	<b>\$ (17.6)</b>	<b>\$ 112.2</b>

[1] HB 7050, AA Making Deficiency Appropriations for Fiscal Year Ending June 30, 2001, appropriates \$2.7 million for increased fuel costs within this deficiency.

[2] The General Assembly's budget plan estimated a Transportation Fund balance of \$76.9 million for FY 00. The unaudited final balance subsequently grew to \$90.2 million.

[3] Section 13b-68(b) of the general statutes previously required that amounts in excess of \$20 million be used by the State Treasurer to reduce the future cost of Special Tax Obligation (STO) debt service. However, Section 13 of PA 00-170 repealed the aforementioned provisions effective July 1, 2000. Thus, no surplus funds will be designated for debt retirement unless specifically mandated in subsequent legislation.

**FY 01 Transportation Fund Revenues**  
**as of May 4, 2001**  
**(in thousands)**

	<b>FY 01 Budget Plan</b>	<b>OFA Over/(Under) Budget Plan</b>	<b>FY 01 OFA Estimate</b>
<b>TAXES</b>			
Motor Fuels Tax	\$417,500	(7,500)	\$410,000
Petroleum Products Tax	46,000	0	46,000
Sales Tax - DMV	55,200	3,000	58,200
Refunds of Taxes	(5,500)	(1,600)	(7,100)
<b>Total - Taxes Less Refunds</b>	<b>\$513,200</b>	<b>(\$6,100)</b>	<b>\$507,100</b>
<b>OTHER SOURCES</b>			
Motor Vehicle Receipts	\$190,900	\$2,500	\$193,400
Licences, Permits, and Fees	113,000	2,000	115,000
Interest Income	37,000	3,500	40,500
Federal Grants (FTA)	3,000	0	3,000
Transfer to Conservation Fund	(3,000)	0	(3,000)
<b>Total -Other Sources</b>	<b>\$340,900</b>	<b>\$8,000</b>	<b>\$348,900</b>
<b>Total Revenue</b>	<b>\$854,100</b>	<b>\$1,900</b>	<b>\$856,000</b>

**Transportation Fund Projections FY 02 - FY 06**  
**Based on sHB 6668, the Appropriations Act**  
**(in millions)**

	<b>FY 02</b>	<b>FY 03</b>	<b>FY 04</b>	<b>FY 05</b>	<b>FY 06</b>
Estimated Balance as of June 30	112.2	141.9	143.7	126.0	81.4
Revenues	869.2	877.7	890.1	896.6	897.1
Expenditures	839.5	875.9	907.8	941.2	976.0
<b>Annual Operating Surplus/(Deficit)</b>	<b>29.7</b>	<b>1.8</b>	<b>-17.7</b>	<b>-44.6</b>	<b>-78.9</b>
<b>Cumulative Operating Surplus/(Deficit)</b>	<b>141.9</b>	<b>143.7</b>	<b>126.0</b>	<b>81.4</b>	<b>2.5</b>